

**WESTCHESTER TOBACCO ASSET SECURITIZATION
CORPORATION
(A BLENDED COMPONENT UNIT OF THE
COUNTY OF WESTCHESTER, NEW YORK)**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

AND INDEPENDENT AUDITORS' REPORT

WESTCHESTER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF WESTCHESTER, NEW YORK)

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O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Westchester Tobacco Asset Securitization Corporation:

We have audited the accompanying statement of net assets of the Westchester Tobacco Asset Securitization Corporation ("WTASC"), a blended component unit of the County of Westchester, New York, as of December 31, 2010 and 2009 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the WTASC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the WTASC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the WTASC as of December 31, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

As discussed in Note 1, the financial statements present only the WTASC and do not purport to, and do not present fairly the financial position of the County of Westchester, New York or the Westchester County Health Care Corporation as of December 31, 2010 and 2009 and the changes in financial position and cash flows, thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully disclosed in Note 5, the only significant resource of the WTASC is the right to receive tobacco revenues. A reduction in these revenues would affect debt service coverage on the bonds. If a reduction were material, it could impair the ability of the WTASC to make Turbo Redemption payments or even its ability to make planned structured principal payments as they are due. As a result, actual amortization may not conform to either the Turbo Redemption maturities or the planned structured principal payments.

O'Connor Davies Munns & Dobbins, LLP

O'Connor Davies Munns & Dobbins, LLP

April 25, 2011

**Westchester Tobacco
Asset Securitization Corporation
Management's Discussion and Analysis (MD&A)
December 31, 2010**

Introduction

As management of the Westchester Tobacco Asset Securitization Corporation ("WTASC"), we offer readers of the WTASC's financial statements this narrative overview and analysis of the financial activities of the WTASC for the fiscal year ended December 31, 2010. It should be read in conjunction with the financial statements, which immediately follow this section, to enhance understanding of the WTASC's financial performance.

Financial Highlights

- ❖ On the statement of net assets, the liabilities of the WTASC exceeded its assets at the close of the most recent fiscal year, resulting in a deficit of \$136,167,147. The deficit was decreased by \$501,286, primarily due to the amount recognized for Tobacco Settlement Revenues ("TSR's") of \$13,253,785 less operating expenses of \$212,589, non operating net interest expense of \$10,721,573 and a residual payment obligation to the County of Westchester of \$1,818,337, representing the County's 13.85% interest in TSR payments.
- ❖ The Governmental Accounting Standards Board ("GASB") issued Technical Bulletin 2004-1, which clarified certain asset and revenue recognition criteria. Prior to the issuance of this bulletin, the WTASC had recognized as a receivable/revenue the present value of the future tobacco revenue stream. This bulletin required a reversal of this position, in that it promulgated that TSR's and the related asset only be recognized when the event giving rise to recognition (i.e. the shipment of cigarettes) occurs. Because annual TSR payments are based on cigarette sales from the preceding calendar year, the WTASC was prohibited from recognizing this future revenue stream as a receivable. Accordingly, the only revenue recognition allowed was for TSR payments to be received in the immediately succeeding fiscal year, as these payments were based on cigarette shipments in the year under audit. This had the effect of deferring revenue recognition, which results in the deficit position reflected on the statement of net assets. Over time, as TSR payments are received and the bonded indebtedness is retired, the deficit will be reduced.

Financial Statements

The *statement of net assets* presents information on the WTASC's assets and liabilities, with the difference between the two reported as *net assets*. The *statement of revenues, expenses and changes in net assets* presents information showing how the WTASC's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, accounts receivable and accrued interest payable).

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets. The notes to financial statements are located beginning on page 8 of this report.

Financial Analysis

Net assets increased by \$501,286 in 2010, compared with an increase of \$972,810 in 2009, a difference of \$471,524. This decrease from the prior year is primarily attributable to a reduction in the recognition of tobacco settlement revenues of \$725,789 as the tobacco manufacturers had a portion of the annual payment put in escrow in a "disputed payment account" pending a recalculation of sales and market share information. These were partially offset by the decrease in interest expense of \$152,438 as well as a reduction in the residual payment to Westchester County from the prior year of \$100,522.

Debt Administration

At the end of the current fiscal year, the WTASC had total gross bonded debt outstanding of \$201,080,000. Although no planned structured principal payments were required to be made, the WTASC was able to make a "Turbo Redemption" payment of \$2,275,000, and to date has made principal payments of \$15,520,000.

Additional information on the WTASC's long-term debt can be found in Note 3 in the notes to financial statements.

Economic Factors

The bonds are payable only from the assets of the WTASC. WTASC's only source of funds for payments on the bonds is the collections of TSR's and amounts on deposit in pledged accounts (i.e. liquidity and debt service reserves and Turbo Redemption accounts) pursuant to the indenture. If a participating manufacturer becomes a debtor in a bankruptcy case and defaults in making payments or cigarette consumption declines, funds available to WTASC to pay bondholders may be reduced or eliminated.

Requests for Information

This financial report is designed to provide a general overview of the WTASC's finances for all those with an interest in those finances. Questions and comments concerning any of the information provided in this report should be addressed to Dennis C. Kelly, Deputy Commissioner of Finance, Westchester County, 148 Martine Avenue, White Plains, New York 10601.

WESTCHESTER TOBACCO ASSET
SECURITIZATION CORPORATION

COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Current Assets:		
Cash and equivalents	\$ 127,444	\$ 98,798
Receivables:		
Tobacco	13,253,785	13,979,574
Interest	<u>122,346</u>	<u>122,346</u>
Total Current Assets	<u>13,503,575</u>	<u>14,200,718</u>
Noncurrent Assets:		
Restricted cash and equivalents	1,216	-
Restricted investments	14,133,625	14,133,625
Costs of issuance, net of accumulated amortization of \$508,190 in 2010 and \$417,171 in 2009	<u>3,132,584</u>	<u>3,223,603</u>
Total Noncurrent Assets	<u>17,267,425</u>	<u>17,357,228</u>
Total Assets	<u>30,771,000</u>	<u>31,557,946</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	45,000	20,000
Due to County of Westchester	1,818,337	1,918,859
Accrued interest payable	<u>848,936</u>	<u>857,467</u>
Total Current Liabilities	2,712,273	2,796,326
Noncurrent Liabilities -		
Bonds payable	<u>164,225,874</u>	<u>165,430,053</u>
Total Liabilities	<u>166,938,147</u>	<u>168,226,379</u>
<u>NET ASSETS</u>		
Deficit	<u>\$ (136,167,147)</u>	<u>\$ (136,668,433)</u>

See notes to financial statements.

WESTCHESTER TOBACCO ASSET
SECURITIZATION CORPORATION

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Operating Revenues - Tobacco settlement revenues	\$ 13,253,785	\$ 13,979,574
Operating Expenses:		
Professional fees	75,439	75,968
Insurance expense	46,131	48,933
Amortization	91,019	91,019
Total Operating Expenses	212,589	215,920
Income from Operations	13,041,196	13,763,654
Non-Operating Revenues (Expenses):		
Interest income	579,129	581,155
Interest expense	(11,300,702)	(11,453,140)
Residual payment to County of Westchester	(1,818,337)	(1,918,859)
Total Non-Operating Expenses	(12,539,910)	(12,790,844)
Change in Net Assets	501,286	972,810
Deficit - Beginning of Year	(136,668,433)	(137,641,243)
Deficit - End of Year	\$ (136,167,147)	\$ (136,668,433)

See notes to financial statements.

WESTCHESTER TOBACCO ASSET
SECURITIZATION CORPORATION

COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Cash Flows from Operating Activities:		
Cash received from tobacco settlement revenues	\$ 13,979,574	\$ 16,798,316
Cash paid to vendors	(96,570)	(149,901)
Net Cash Provided by Operating Activities	13,883,004	16,648,415
Cash Flows from Investing Activities:		
Increase in restricted cash and equivalents	(1,216)	378,936
Interest income	579,129	581,827
Net Cash Provided by Investing Activities	577,913	960,763
Cash Flows from Non-Capital Financing Activities:		
Repayment of bonds payable	(2,275,000)	(4,945,000)
Interest paid	(10,238,413)	(10,400,862)
Residual payment to County of Westchester	(1,918,858)	(2,312,717)
Net Cash Used in Non-Capital Financing Activities	(14,432,271)	(17,658,579)
Net Increase (Decrease) in Cash and Equivalents	28,646	(49,401)
Cash and Equivalents - Beginning of Year	98,798	148,199
Cash and Equivalents - End of Year	\$ 127,444	\$ 98,798
Reconciliation of Income from Operations to Net Cash Provided by Operating Activities:		
Income from operations	\$ 13,041,196	\$ 13,763,654
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Amortization	91,019	91,019
Changes in assets and liabilities:		
Accounts receivable	725,789	2,818,742
Accounts payable	25,000	(25,000)
Net Cash Provided by Operating Activities	\$ 13,883,004	\$ 16,648,415
Noncash Non-Capital Financing Activities:		
Increase in bonds payable from amortization of original issue discount	\$ 118,939	\$ 118,939
Increase in bonds payable from amortization of loss on refunding	951,882	951,882

See notes to financial statements.

WESTCHESTER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF WESTCHESTER, NEW YORK)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 1 - Nature of Business and Summary of Significant Accounting Principles

Nature of Business

The Westchester Tobacco Asset Securitization Corporation ("WTASC") is a special purpose corporation and a subsidiary corporation of the Westchester County Health Care Corporation ("WCHCC"). WTASC was organized under the provisions of Section 1411 of the New York State Not-For-Profit Corporation Law and pursuant to Section 3306(7) of the Public Authorities Law of the State of New York. The Board of Directors of WTASC consists of three members; one director designated by WCHCC to be the Commissioner of Finance of the County of Westchester, New York ("County"), one director designated by WCHCC to be the WCHCC board representative, selected by the Majority Leader of the County Board of Legislators and a third director who meets certain requirements of independence and shall be designated by the other two members.

An agreement among the attorneys general of 46 states and various territories ("Settling States") and the four largest United States tobacco manufacturers was entered into on November 23, 1998. The agreement, known as the Master Settlement Agreement ("MSA"), resolved cigarette smoking-related litigation between the Settling States and U.S. Tobacco manufacturers. Pursuant to the MSA, the Settling States and the participating manufacturers agreed to settle all past, present and future smoking related claims in exchange for an agreement by the participating manufacturers to make certain payments. Under the MSA, the State of New York is entitled to receive approximately 12.76% of the initial and annual payments. The New York Consent Decree, which was entered into in the Supreme Court of the State of New York for the County of New York in December 1998, allocated 1.926% of this State-wide share of the initial and annual payments to the County and the remainder among the State, the City of New York and all other counties within the State.

During 1999, the County sold all of its future rights, title and interest to receive payments under the MSA and the Consent Decree to WTASC, which issued \$103,504,558 in Tobacco Settlement Asset-Backed Bonds, Series 1999 ("Series 1999"). During 2005, WTASC issued \$216,600,000 of Tobacco Settlement Asset-Backed Bonds Series 2005 ("Series 2005"), the proceeds of which were used to 1) refund the outstanding Series 1999 bonds, 2) fund the Liquidity Reserve Account at its required level, 3) pay certain costs of issuance related to the Series 2005 bonds and 4) provide the County with funds for working capital purposes. The Series 2005 bonds are payable from and secured solely from the pledged Tobacco Settlement Revenues ("TSR's"), which consists of investment earnings and the annual total TSR payments, less the portion thereof that constitutes unencumbered revenues. Unencumbered revenues consist of 13.85% of each payment of TSR's. The County will be entitled to receive these unencumbered revenues free and clear of the lien of the indenture. Bondholders will have no claim on the unencumbered revenues if pledged revenues are insufficient to pay principal and/or interest on the Series 2005 bonds.

The debt issued by WTASC to securitize these revenues is not considered debt of the County or the WCHCC.

WESTCHESTER TOBACCO ASSET SECURITIZATION CORPORATION
 (A BLENDED COMPONENT UNIT OF THE COUNTY OF WESTCHESTER, NEW YORK)

NOTES TO FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2010 AND 2009

Note 1 - Nature of Business and Summary of Significant Accounting Principles (Continued)

Entity Definition

Based on the guidance provided by Governmental Accounting Standards Board Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the WTASC is reported as a blended component unit of the County in its financial statements.

Basis of Presentation

The accounts of the WTASC are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The WTASC applies all applicable Financial Accounting Standards Board pronouncements in accounting for and reporting on its operations.

The accompanying financial statements present only the activities of the WTASC and do not purport to, and do not, present fairly the financial position of the County or the WCHCC as of December 31, 2010 and 2009 and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Equivalents

Cash and equivalents consist of demand deposit accounts, time deposit accounts, money market accounts and certificates of deposit with original maturities of three months or less.

Restricted Cash and Equivalents and Investments

The terms of the bond indenture provide for the establishment of a liquidity reserve. The reserve will be initially funded from the proceeds of the issuance of the Series 2005 bonds in an amount equal to \$14,133,625, the maximum annual debt service requirement based on planned structured principal payments.

Restricted cash and equivalents consists of funds held in the Debt Service and Turbo Redemption accounts whose use is restricted to the payment of debt obligations on the WTASC bonds.

Costs of Issuance

The costs of issuance of the Series 2005 bonds are being amortized over the planned structured maturities of the bonds, which is forty years.

WESTCHESTER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF WESTCHESTER, NEW YORK)

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2010 AND 2009

Note 1 - Nature of Business and Summary of Significant Accounting Principles (Continued)

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is April 25, 2011.

Note 2 - Restricted Investments

Restricted investments at December 31, 2010 and 2009 consisted of the following -

Security Benefit Life Insurance Company fixed annuity due April 2045, interest at 4.1%	<u>\$ 14,133,625</u>
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Note 3 - Bonds Payable

WTASC issued bonds on June 15, 2005 as follows:

\$29,600,000 of Turbo Term Bonds due June 1, 2021 with interest at 4.5% and a projected final Turbo Redemption date of June 1, 2012.* Balance due at December 31, 2010 is \$14,080,000.

\$24,100,000 of Turbo Term Bonds due June 1, 2026 with interest at 5.0% and a projected final Turbo Redemption date of June 1, 2016.* Balance due at December 31, 2009 is \$24,100,000.

\$81,200,000 of Turbo Term Bonds due June 1, 2038 with interest at 5.125% and a projected final Turbo Redemption date of June 1, 2023.* Balance due at December 31, 2009 is \$81,200,000.

\$81,700,000 of Turbo Term Bonds due June 1, 2045 with interest at 5.125% and a projected final Turbo Redemption date of June 1, 2026.* Balance due at December 31, 2009 is \$81,700,000.

*Assumes Turbo Redemption payments are made based on the receipt of surplus pledged TSR's in accordance with the Global Insight Base Case Forecast of future tobacco consumption.

A schedule of planned structured principal maturities as of December 31, 2010 is as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ -	\$ 10,187,225	\$ 10,187,225
2012	-	10,187,225	10,187,225
2013	-	10,187,225	10,187,225
2014	-	10,187,225	10,187,225
2015	-	10,187,225	10,187,225
2016-2045	<u>201,080,000</u>	<u>198,329,188</u>	<u>399,409,188</u>
	201,080,000	<u>\$ 249,265,313</u>	<u>\$ 450,345,313</u>
Unamortized Original Issue Discount	(4,093,502)		
Deferred Amounts on Refunding	<u>(32,760,624)</u>		
	<u>\$ 164,225,874</u>		

WESTCHESTER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF WESTCHESTER, NEW YORK)

NOTES TO FINANCIAL STATEMENTS (Concluded)
DECEMBER 31, 2010 AND 2009

Note 4 - Prior Year Defeasance

In 2005, the WTASC defeased the 1999 bonds by placing a portion of the proceeds of the new bonds in an irrevocable trust to provide for all debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the WTASC's financial statements. At December 31, 2010, \$97,575,000 of bonds outstanding are considered defeased.

Note 5 - Significant Contingencies

Contingencies

The enforceability of the rights and remedies of the State (and thus the bondholders) and of the obligations of a participating manufacturer under the MSA are subject to the Bankruptcy Code and the other applicable insolvency, moratorium or similar laws relating to or affecting the enforcement of creditors' rights. Some of the risks include risks of delay in or reduction of amounts of payment or of non-payment under the MSA and the risk that the State (and thus the County and/or WTASC) may be stayed for an extended time from enforcing any rights under the MSA and the Consent Decree or with respect to the payments owed by the bankrupt participating manufacturer or from commencing legal proceedings against the bankrupt participating manufacturer. As a result, if a participating manufacturer becomes a debtor in a bankruptcy case and defaults in making payment, funds available to WTASC to pay bondholders may be reduced or eliminated.

The bonds are payable only from the assets of WTASC. The bonds are neither legal nor moral obligations of WCHCC, the County or the State of New York, and no recourse may be had thereto for payment of amounts owing on the bonds. WTASC's only source of funds for payments on the bonds is the collections and amounts on deposit in pledged accounts pursuant to the indenture. WTASC has no taxing power and no significant assets other than the rights to receive tobacco settlement revenues and amounts on deposit in a pledged account amounting to \$14,133,625.